Algemene Rekenkamer

EU Trend Report 2016

Developments in the financial management of the European Union

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Executive summary

Purpose and structure

This is the fourteenth annual EU Trend Report to be published by the Netherlands Court of Audit. It provides an insight into the management of EU funds in the European Union (EU) as a whole, in the EU member states and in the Netherlands. Financial management is an important factor in the Minister of Finance's decision to discharge the European Commission for its implementation of the EU budget. The Netherlands decides on the discharge every spring following a debate in the House of Representatives. Our report is intended to help the House conduct a well-informed debate with the Minister. Our position is that the citizens of the EU have a right to expect EU funds to be spent in their own country and elsewhere so as to achieve the intended outcomes (effectively), with the optimal use of resources (efficiently) and in accordance with the rules (regularly). We also believe that EU citizens have a right to expect the effectiveness, efficiency and regularity of expenditure to be completely transparent.

The 2016 EU Trend Report consists of two parts. Part I describes the current state of financial management in the EU. We look at what is known about the regularity, effectiveness and efficiency of expenditure both EU-wide and in the individual member states. In part II, we depart from previous editions of the EU Trend Report. This is due in part to the special circumstance that this report will be issued during the Netherlands' presidency of the EU from 1 January to 30 June 2016. We consider it in the form of a reflection on developments that are currently taking place in EU financial management. To do so, we draw on our previous EU Trend Reports.

Conclusions and recommendations part I

Each year we examine various EU accountability documents and audit reports issued by the European Commission, the European Court of Auditors and the EU member states to determine whether EU funds have been spent regularly, effectively and efficiently.

This year, we concluded that the accountability documents still provide only limited insight into the regularity of the use of EU funds in the member states. A lot of money is at stake: the EU's annual budget totals nearly € 144 billion and 80% of it is spent in the member states. The member states share responsibility for the proper management and correct expenditure of these funds.[1] But only three of the 28 member states (one being the Netherlands) are prepared to publish accounts of how EU funds are spent within their national borders and to accept political responsibility for the expenditure. The other member states restrict themselves to an annual summary of the controls they have performed of the regularity of the expenditure of funds received from Brussels. All member states are required to prepare such annual summaries but they are not made public and they are not signed at political level (i.e. by a minister). The fact that for decades the European Court of Auditors has failed to issue a positive Statement of Assurance on the regularity of the use of the EU budget underlines the urgency of preparing full and transparent accountability documents at member state level.

1
The funds are said to be 'under shared management'.

Insight into the efficiency and effectiveness of the use of EU funds is also open to improvement. We again conclude that the accountability documents provide some insight into the performance (outputs) of EU funding in the member states but little is known about the effects (outcomes). This information is essential for a full understanding of what EU funds deliver.

In the light of these conclusions we recommend that the Dutch government continue to urge other member states to publish documents to account for their use of EU funds and accept political responsibility for their expenditure, as the Netherlands does. In the meantime, the government should encourage other member states to publish at least the compulsory annual summaries of their controls of expenditure. As from 2016, they could also publish the associated management declarations on the regularity of expenditure declared to the European Commission.

Main points part II

As indicated above, the second part of this report considers the Netherlands' presidency of the EU in the first half of 2016. We have taken the opportunity to consider a number of issues that our EU Trend Reports have repeatedly raised in recent years. We discuss the problems underlying the European Court of Auditors' failure over many years to express a positive Statement of Assurance on the regularity of EU expenditure. And we take a closer look at the results achieved by EU projects.

To date, audits of EU expenditure and EU programmes have focused on their compliance with the rules. Little attention has been paid to whether the funds have had their intended effect and whether the available budget has been spent efficiently. In our opinion transparency regarding the social effects of EU programmes is essential if EU citizens are to know EU programmes achieve.

The new European Commission that took office in 2014 under the presidency of Jean-Claude Juncker has given high priority to the performance of the EU. It aims to do more with less money and to simplify the rules where possible. We think the member states should seize this opportunity to bring about tangible improvements. It is important that the initiatives bear fruit. A fundamental revision of the budgeting system could help make the recurrent problems a thing of the past. This would require not only good ideas and intentions but also decisive and consistent narratives and actions to strengthen the EU's credibility.

Response of the government and the Court of Audit's afterword

Response of the government

The government responded to our report on 18 January 2016. It wrote that our recommendation to continue urging member states to publish accounts of their use of EU funds supported its policy. The government noted that the EU Financial Regulation requires the authorities in the member states to prepare a number of new annual accountability documents in the new 2014-2020 programming period. These documents are the management declaration on the accounts, a detailed annual summary containing information on the error rate in each fund and on the control systems, and an opinion by an independent audit body.

If the European Commission were in turn to report transparently on these accountability documents each year and if it considered the reliability of their figures and the functioning of the supreme audit institutions in the member states, the government believes this would provide an insight into areas with persistent high error rates. The government thinks the European Commission is not unwilling to take this approach but the member states must agree to the publication of such documents. To date, most member states have shown little willingness to do so.

Court of Audit's afterword

We note that the government agrees with us that the EU member states hold the key to greater transparency on the regularity of the use of EU funds. The same is also largely true of the insight into the effectiveness and efficiency of the use of EU funds. As we argue in part II, these are factors that underpin public support for the EU. We will follow the government's efforts to bring about the desired improvements with interest, both during and after the Netherlands' presidency.

European Union: a project of 28 countries

The European Union is currently made up of 28 countries. The Union was initially created as an economic project under the name European Coal and Steel Union by a small group of countries shortly after the Second World War. It has grown over the years into an organisation that is involved in a wide range of policy areas.

Democratic decision-making

Everything the EU does is based on treaties that are democratically adopted by all member states. The most common form of decision-making in the EU is the co-decision procedure; the directly elected European Parliament approves proposed legislation with the Council of Ministers, in which the governments of all 28 member states are represented.

Laws and rules

The EU can take various types of decision. Some are binding, others are not. Some apply in all member states, others in just a few.

Not binding

- **Recommendation**
  A proposal by an EU institution to all member states or to one or more named member states to adopt a particular policy line. Does not create legal obligations.
- **Guidance**
  A decision taken by heads of state or government in the European Council that sets out the broad lines of a given EU policy field.
- **Communication**
  A non-binding document issued by the European Commission concerning, for example, a policy evaluation, an explanation of an activity programme or a discussion piece for new policy.
- **Advice**
  An opinion given by an EU institution to one of more named member states, usually in response to an objection or as part of a particular procedure. An advice does not create legal obligations.

Binding

- **Regulation**
  A decision by the EU that is binding in its entirety and directly applicable in all member states. Member states themselves do not need to take their own measures.
- **Directive**
  A decision by the EU that is binding as to the results to be achieved in all member states. Member states are free to choose the form and methods of the measure they take.
- **Decision**
  A decision by the EU of direct application in particular cases (to persons, organisations, businesses or member states).

EU institutions

This report looks at the following EU institutions:

Brussels

European Parliament
Legislator and controller

751 members of parliament

The **European Parliament** represents the citizens of the EU. It has 751 members, who are elected every five years (the next election will be in May 2018). It shares legislative powers with the Council. It can adopt, amend and reject European laws (regulations and directives). The Parliament decides on the EU budget together with the Council.

European Commission
Executive body

28 commissioners

The **European Commission** is made up of 28 commissioners, one from each member state. It proposes new laws and rules and checks that the member states observe them. In the same way that a national government has ministries, the Commission consists of Directorates-General (DGs) and services that are responsible for specific policy fields.

European Commission

Luxembourg

European Court of Auditors
Auditor

The **European Court of Auditors'** main duty is to audit the implementation of the EU budget. It investigates the 'legality and regularity' of the EU's revenues (the contributions the EU receives from the member states) and the EU's expenditures (chiefly the grants the EU awards to the member states). The European Court of Auditors also audits the financial management of the European Commission and the other EU institutions.

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Member states

European Council
Impetus setter

Heads of state or government of all 28 member states

The **European Council** is made up of the heads of state or government of all 28 member states. It provides the necessary impetus for the development of the Union and sets the general political policy lines and priorities. The European Council does not exercise legislative duties.

Council of Ministers
Legislator

Ministers of all 28 member states

The **Council of Ministers** (or **'Council'** for short) exercises legislative and budgetary duties together with the European Parliament. It must approve all legislation proposed by the Commission and every budget proposed for the EU.

Part I

EU: trends in financial management

EU revenue and expenditure

Shared funding, shared expenditure

The EU is financed by means of annual contributions to its budget by the member states. The budget may not run a surplus or a deficit. All expenditure must be covered by revenue and budgeted funds that are not spent must be returned to the member states, either by deducting them from future contributions or by refunding them on a pro rata basis.

The EU budget for 2014 totalled nearly € 144 billion. To put this into perspective, it was equal to about 1% of the member states' aggregate gross national income (GNI).

Three types of contribution

To fund the EU's expenditure, the member states make a contribution calculated separately for each country. These contributions to the EU budget are known as the EU´s own resources. They consist of:

- traditional own resources: 75% of sugar levies and customs duties collected by the member states;
- VAT-based own resources: a set percentage (with a ceiling) of the individual member states' VAT revenue or level of consumption, applied on a uniform basis across the EU;
- remittances based on the member states' gross national income (GNI).

Shared management

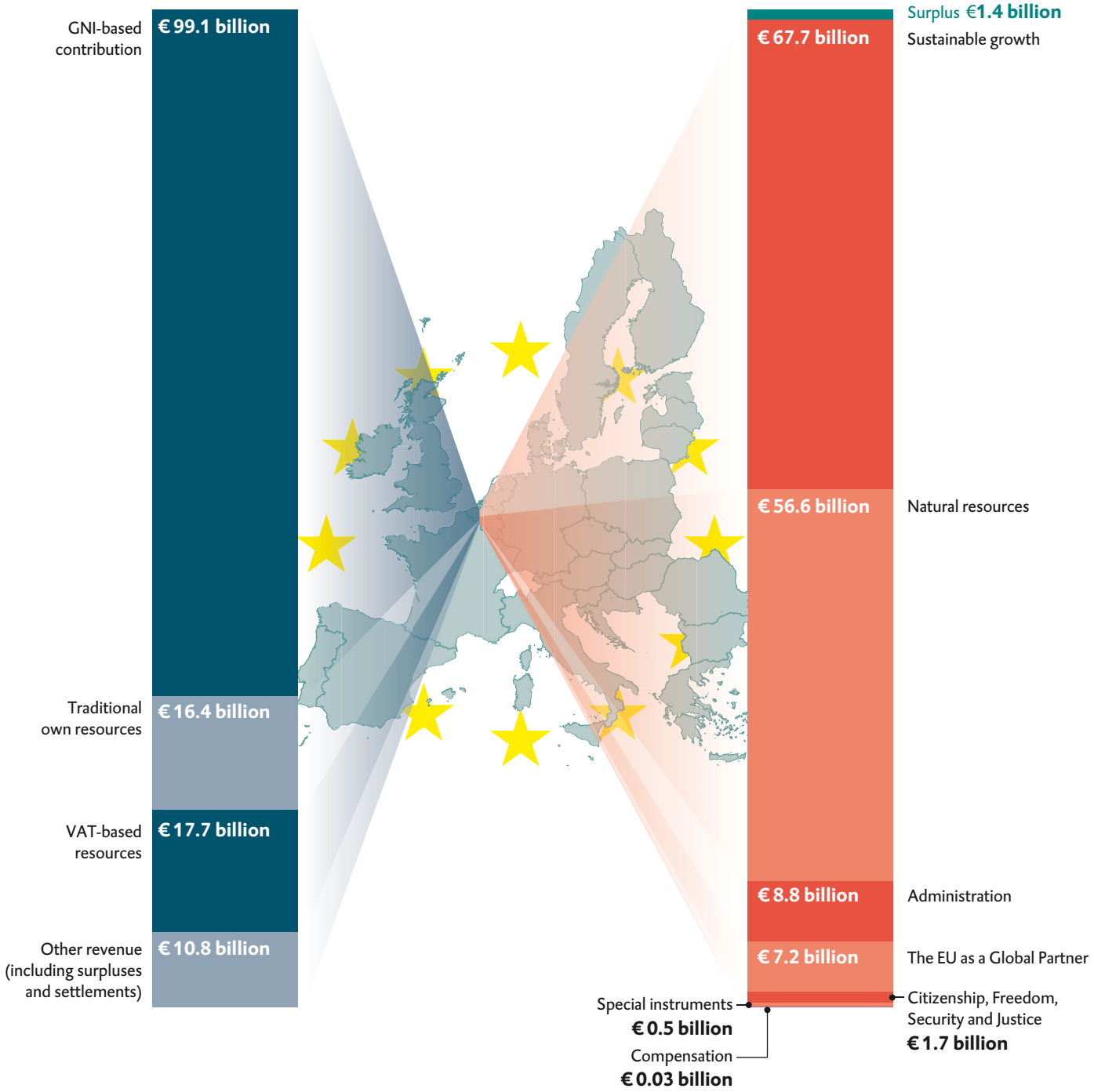
About 80% of the funds recognised in the EU budget every year are managed jointly by the European Commission and the member states. These funds are said to be 'under shared management'. They include the structural funds, for example, which are applied to strengthen the economic, social and territorial cohesion of the EU.
This report looks principally at the use of funds under shared management. The member states have a direct responsibility for the correct (regular, efficient and effective) use of these funds.

Revenue
2014

€143.9 billion

Expenditure
2014

€142.5 billion



1 Financial management and regularity

This chapter considers the way in which the member states' contributions to the EU are managed and spent. EU funds must be spent in accordance with the regulations. If not, there is said to be an irregularity.

The European Commission publishes a series of documents each year to account for its financial management and its control of the regularity of expenditure. The European Court of Auditors carries out an independent audit and expresses an opinion in an annual report. The individual member states also prepare annual reports on their expenditure of EU funds. These accountability and audit documents (see figure above) are considered in this chapter. We look at the subject matter and contents of the following reports issued in 2015: the European Commission's accountability documents (section 1.1), the European Court of Auditors' audit report (section 1.2) and national declarations (section 1.3).

1.1 The European Commission's accountability documents

1.1.1 European Commission's activity reports and Synthesis Report

The European Commission's DGs and services[2] issue annual activity reports in which they state that the reports give a true and accurate view and that there is reasonable assurance that the expenditure from the DG's budget was legal and regular. The Director-General can make reservations in the activity report if there is uncertainty about the reliability of the information provided. A reservation is intended to point out shortcomings or problems that may prevent the Director-General issuing a full declaration of assurance. A reservation can be made if, for example, there are doubts about the regularity of expenditure.

The Director-General should state how many reservations have been made, how much money is involved, how the shortcomings or problems have arisen (for example the underlying internal or external risks) and the corrective measures taken to address them.

In 2014 all Directors-General declared in their activity reports that they had reasonable assurance that the funds they managed had been used correctly, that the principles of sound financial management had been observed and that the control procedures provided the necessary assurances on the legality and regularity of the underlying financial transactions.

The annual activity reports for 2014 gave more prominence to the so-called performance framework. The new European Commission attaches a great deal of importance in these policy performance reports to the added value its activities generate for EU citizens. With a view to the coherence and comparability of all DGs, measures have been taken to improve the reporting of policy results and programme management. Significant progress has therefore been made.

2 For the sake of convenience we refer in the rest of this report only to DGs. References to DGs include the services.

Accountability and control: who does what

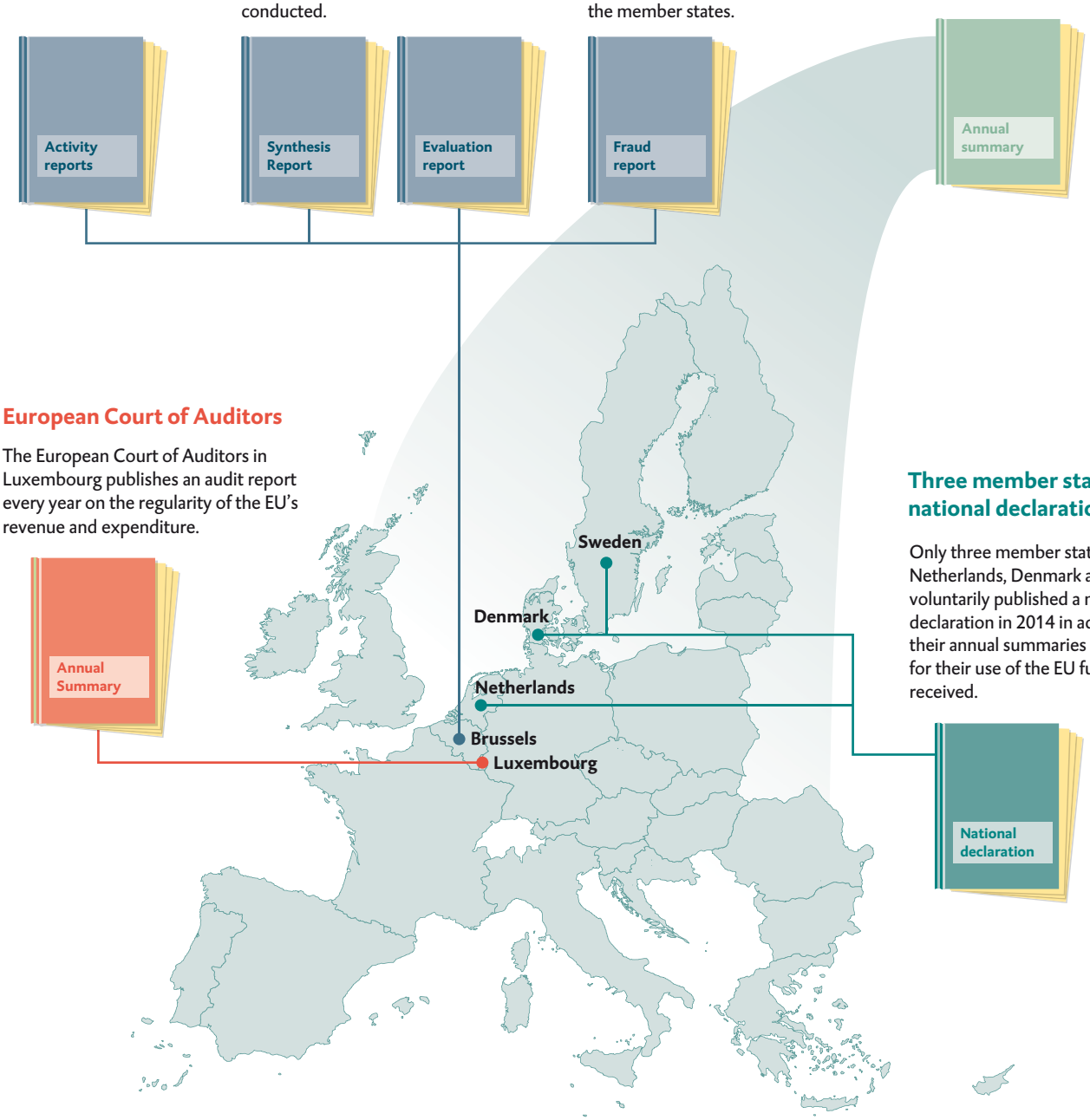
European Commission

The European Commission prepares annual accountability documents and control reports.

- The Commission's policy DGs issue activity reports.
- The Commission issues an overarching Synthesis Report on the activity reports and an evaluation report on the policy conducted.
- OLAF, the anti-fraud office, publishes a report on irregularities and fraud in the member states.

All member states: annual summary

All EU member states prepare compulsory annual summaries of their audits (and audit findings) of the regularity of EU funding flows.



European Court of Auditors

The European Court of Auditors in Luxembourg publishes an audit report every year on the regularity of the EU's revenue and expenditure.

Three member states: national declaration

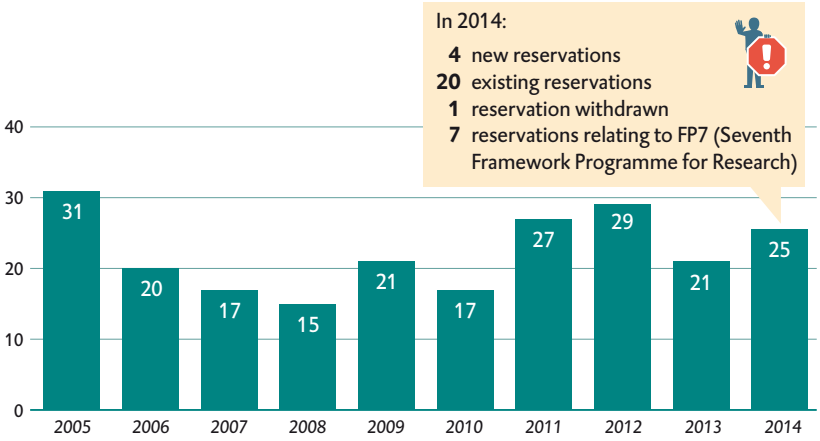
Only three member states (the Netherlands, Denmark and Sweden) voluntarily published a national declaration in 2014 in addition to their annual summaries to account for their use of the EU funds they received.

Increase in number of reservations in 2014

The Directors-General made more reservations regarding the reliability of the information provided on the use of their budgets in respect of 2014 than in respect of 2013. However, the financial value of the reservations was lower. A total of 25 reservations were made for 2014, four more than for the previous year.

Apart from the four new reservations that were made,[3] one was withdrawn.[4] It goes without saying that the more reservations the DGs make, the more uncertainty there is about the regularity of their expenditure.

Number of DGs' reservations increases again



Source: European Commission, Synthesis Reports, 2005-2014

Reservations were made in 2014 on all major areas of expenditure (agriculture € 1,447 million, structural funds and cohesion € 418 million, external aid € 216 million and research € 200 million). The amount at risk after adjustment for recoveries and financial corrections already made is estimated at € 2.3 billion (1.6% of the overall budget); in the previous year € 2.4 billion had been at risk (also 1.6%).

As in previous years, the 12 activity reports we studied in detail[5] present the reservations and detailed explanatory notes and quantify the amounts concerned. The reservations related not only to shortcomings detected in financial transactions but often also to shortcomings in management and control systems. The shortcomings themselves were due to the complexity of EU rules on the eligibility of expenditure.

Number of 'reputational' reservations unchanged in 2014

If a Director-General makes a 'reputational' reservation in a declaration of assurance, the underlying shortcoming in the design or functioning of the internal controls or financial management tarnishes the Commission's reputation.

Two of the Directors-General of the 12 DGs we studied made reputational reservations in their activity reports for 2014. In the previous year DGs Regional Policy and Employment had also made reputational reservations.

3
These reservations related to the common foreign and security policy.

4
The Director-General for Health and Consumer Protection (SANCO) withdrew the reservation he had made.

5
The activity reports issued by the policy DGs Agriculture and Rural Development; Regional and Urban Policy; Employment, Social Affairs and Inclusion; Maritime Affairs and Fisheries; Home Affairs; Justice; Education and Culture; Environment; Mobility and Transport; Energy; Research and Innovation; and Taxation and Customs Union. The selection consists chiefly of the shared management DGs and DGs of major financial importance. In total, 33 activity reports were issued in 2014.

Nature of reservations and financial value

Budget heading	DG	Nature of reservation € financial R reputational	Financial risk (in millions of euros)
Sustainable growth	Regional policy	€	224
		R	–
		€	17
	Employment, Social Affairs and Inclusion	€	169
		R	–
	Mobility and Transport	€	1
	Energy	€	4
	Research and Innovation	€	111
Natural Resources	Agriculture and Rural Development	€	78
		€	832
		€	533
		€	5
	Maritime Affairs and Fisheries	€	7
Citizenship, Freedom, Security and Justice		–	–
Total number of reservations in policy DGs audited		€ 11 R 2	1,981
Other reservations		12	
Total number of reservations		**€ 20** **R 5**	**2,285**

* The most important new reservation in 2014 related to Greece; the error rate in four operational programmes of the European Social Fund (ESF) is provisionally estimated at 5%. All Greece's programmes are included in the list of reservations and for caution's sake no payments will be made until the European Court of Auditors and the Greek authorities complete their current discussions.

The figure above shows that the reputational reservations for 2014 were made by:

- DG Regional Policy, regarding the management and control systems in place for the European Regional Development Fund (ERDF) and the Cohesion Fund (transport sector) in four member states (Italy, Ireland, Romania and Bulgaria) for the period 2000-2006. These reservations were the outcome of (a) significant corrections that were necessary after the closure of certain programmes, and (b) the suspicion of fraud in several projects in one member state.
- DG Employment, Social Affairs and Inclusion, regarding the management and control systems in place for the European Social Fund (ESF) in seven ongoing programmes in three member states (France, Italy and Spain) in the period 2000-2006. These reservations were the outcome of shortcomings in systems that could affect the regularity of payments.

No change in reports on results of controls in member states

The five policy DGs that are responsible for the funds the Commission manages together with the member states (DG Agriculture and Rural Development, DG Regional Policy, DG Employment, Social Affairs and Inclusion, DG Maritime Affairs and Fisheries and DG Home Affairs) provide detailed information in their annual activity reports for 2014 on the results of controls in the member states. The information is substantively of the same quality and quantity as that in the activity reports for 2013.[6] The other seven policy DGs report only the nature of the controls and, in some cases, the member states in which they were carried out. These reports provide little insight into the results of the controls.

Synthesis Report: final accountability document

The European Commission compiles an annual Synthesis Report based on the DGs' activity reports. As in the previous year, the Synthesis Report for 2014 states that the Commission's internal audit service (IAS) expressed an opinion on the financial management on which the Directors-General based their activity reports.[7] The opinion, which is not made public, notes that the Commission's management, risk and internal controls on the whole provided reasonable assurance on the achievement of financial goals. The IAS drew attention to the new legislation in the multiannual financial framework 2014-2020. The rules on what is and what is not eligible for funding remain complex. This could lead to differences of interpretation among the member states and a higher risk of errors, according to the IAS.

In its Synthesis Report for 2014 the Commission presented, for the first time, a summary of the key performance indicators to demonstrate the delivery of its goals.[8] The report states, for example, that employment in the agriculture sector has increased since 2012 and is therefore on target. According to the Commission the scores on most of the indicators show that it is well on track to reach its multiannual objectives.

The Synthesis Report also contains, again for the first time, the best estimate of the total amount at risk together with an estimate of future corrections. The Commission estimates the overall amount at risk in 2014 at between € 3.7 billion and € 5 billion. But not all risks result in irregularities[9] that have to be corrected. Based on past experience the Commission estimates that the controls it will implement in successive years will identify and correct errors for a total amount of approximately € 2.7 billion. This is equal to 1.9% of the EU's total expenditure in 2014 of € 142.5 billion.[10]

1.1.2 OLAF report on irregularities and fraud

The member states sometimes make mistakes implementing EU rules when they receive and spend EU funds. These mistakes are known as irregularities. Sometimes member states break the rules intentionally. This is known as fraud. The member states must report all irregularities in excess of € 10,000 to the Commission and take measures to recover payments made in mistake.

OLAF,[11] the EU anti-fraud office, compiles annual summaries for the Commission of the number of irregularities reported to it. The summaries do not provide a full and reliable picture, however, because the member states do not use the same reporting procedures. There are differences in, for example, the definitions (such as 'suspicion of fraud') used in national legislation and the members states' reporting of criminal prosecutions.

6 The improved structure of all activity reports in 2013 strengthened the comparability of the repots, in part through the introduction of a compulsory section entitled Key conclusions on resource management and internal control effectiveness.

7 In accordance with article 99, paragraph 5 of the revised Financial Regulation, a summary of the internal auditor's work will be sent to the discharge authority.

8 See appendix 1 of the Annex to the Synthesis Report, 'Reporting on Policy Achievements: selection of key performance indicators'.

9 'Irregularity' is the EU term for what in the Netherlands is known as 'unlawful'. For the purposes of this report, we consider the two terms to be synonymous.

10 These estimates are based on the average amount of corrections since 2009. According to the European Commission, this is the best available indication of the corrective capacity of ex post control.

11 OLAF stands for Office européen de lutte antifraude.

Increase in irregularities

Across the EU as a whole, both the number of irregularities reported and their financial value were higher in 2014 than in 2013; the number increased by 4.4% and the value by 50%.

Irregularities by budget heading

Budget headings (former budget headings)	**Irregularities**			**Financial value** (in millions of euros)		
	2013	*2014*		*2013*	*2014*	
Own resources	4,777	5,185	↑	388.4	978.6	↑
Natural resources (common agricultural policy)	3,535	3,937	↑	277.9	306.1	↑
Sustainable growth (structural policy)	4,993	5,283	↑	1,333.7	1,835.5	↑
Citizenship, Freedom, Security and Justice; and EU as a Global Partner (direct policy)	2,245	1,897	↓	81.9	100.8	↑
Compensation for new members (pre-accession policy)	229	171	↓	62.2	24.7	↓
Total	**15,779**	**16,473**	↑	**2,144.1**	**3,244.7**	↑

Figures are taken from the reports on the protection of the EU's financial interests for 2013 and 2014 and related annexes; COM(2014)474, section 2, and COM(2015) 386, section 4.

The 16,473 irregularities reported by the member states in 2014 had a total financial value of € 3.24 billion (2013: € 2.14 billion).[12] Five member states reported two-thirds of this total: the Czech Republic, Slovakia, Poland, Spain and the United Kingdom. Irregularities were reported in agricultural funding (including the fisheries funds), structural funding and the member states' remittance of import levies and customs duties (i.e. traditional own resources). The United Kingdom reported the highest amount of irregularities in traditional own resources: € 572.9 million, equal to nearly three-quarters of the total irregularities in remittances of € 978.6 million.

The member states must take all measures necessary to recover payments made in error. If a member state reports an undue payment on time and takes appropriate action, the Commission will not impose a financial correction.

12
Of this total, € 2.27 billion relates to expenditure and the remainder to receipts from the EU. The reported irregularities represent 1.8% of the payments made in the member states.

The corrections and recoveries proposed by the Commission increased from € 3,436 million in 2013 to € 4,728 million in 2014. The financial value of the undue payments actually recovered, however, fell by 11%. Corrections and recoveries in 2013 had amounted to € 3,334 million but the amount in 2014 was € 2,980 million, relating chiefly to Cohesion policy (-25%) and, within it, the ESF (-67%).

Financial corrections and recoveries 2013-2014 by EU budget heading

Budget heading	Confirmed and decided (in millions of euros)				Implemented (in millions of euros)			
	Financial corrections	Recoveries	Total	Variation 2014/2013	Financial corrections	Recoveries	Total	Variation 2014/2013
Agricultural policy	1,869	378	2,247	54%	882	317	1,199	21%
EAGF	1,649	213	1,862	74%	796	150	946	48%
EAFRD	2,016	35	2,051	38%	1,357	32	1,389	-25%
Cohesion policy	1,330		1330	293%	823	1	824	32%
ERDF	292		292	33%	191		191	-31%
Cohesion Fund	342	1	343	-61%	289	1	290	-67%
ESF	52	34	86		54	30	84	
Other (incl. EFF, FIFG, EAGGF-Guidance)	5	293	298	-25%	5	274	279	-30%
Internal policy		127	127	37%		108	108	-16%
External policy		5	5	-17%		5	5	-17%
Administration	3,890	838	4,728	38%	2,224	736	2,980	-11%
Total 2014	**2,495**	**941**	**3,436**		**2,472**	**862**	**3,334**	
Total 2013	56%	-11%	38%		-9%	-15%	-11%	
Variation 2014/2013								
Own resources total 2014		**958**	**958**			**229**		**24%**
Own resources total 2013		425	425			287		67%
Variation 2014/2013		-125%	-125%			-20%		

Source: Report on the protection of the European Union's financial interests 2014, COM(2015) 386, p. 29.

The own resources recovered in 2014 amounted to € 958 million, of which the member states recovered € 229 million in cases detected before the end of the year. The recovery rate was thus 24%.

Irregularities chiefly in cohesion policy

More irregularities were reported in agricultural policy and cohesion policy in 2014 than in 2013. The financial value of these irregularities was also higher than in 2013. Cohesion policy still accounts for the largest proportion of expenditure. The funds the member states receive to implement the policy are applied to strengthen the economies of the least developed members of the Union. The projects funded (e.g. the construction of roads and railways) help the Union 'stick together'.

Any consideration of the trend in these figures (particularly regarding the value of the irregularities in cohesion policy) should bear in mind that the number of member states increased during the period concerned and the threshold to report irregularities was raised.[13]

Increase in suspected fraud cases

Fraud is an irregularity committed intentionally, for example by knowingly using or submitting false, incorrect or incomplete declarations or documents, non-disclosure

13
The threshold to report irregularities in the structural funds, including the Cohesion Fund, was raised from € 4,000 to € 10,000 in 2006. The threshold for agricultural funds was raised to the same level a year later.

of information contrary to the rules or the misapplication of funds for purposes other than those for which they were originally intended.

The number of suspected fraud cases reported to OLAF by the member states in 2014 increased from 1,294 to 1,417. This is the highest number of new cases reported to OLAF since it was established. The information reported related chiefly to suspected fraud in the structural funds. Of the 549 cases reported, 127 relate to fraud in grants awarded from the European Social Fund (ESF).

In response to the reports it received in 2014, OLAF opened 234 fraud investigations, increasing the number of ongoing cases at the end of 2014 to 474. Broken down by policy field, the new cases unsurprisingly relate largely to the structural funds. There was a modest increase in structural funds cases from 149 in 2013 to 153 in 2014. The number of fraud cases investigated by OLAF in agricultural policy declined from 82 to 60. In a period of just over five years, OLAF has made recommendations to member states relating to outstanding recoverables worth € 901 million that must be returned to the EU budget.

OLAF has increasingly been working with the national Anti-Fraud Coordination Services (AFCOs) that all member states must establish under the new OLAF Regulation. Twenty-three member states had set up an AFCOS by mid-2014,[14] and all of them by the end of the year. The AFCOS work proactively with OLAF and share operational and other information to strengthen the fight against fraud.

1.2 European Court of Auditors' audit report

The European Court of Auditors' main task is to audit the implementation of the EU budget. It examines the regularity of both the EU's revenues (the contributions received from the member states) and its expenditures (most of which are grants awarded to the member states). The European Court of Auditors also audits the financial management of the European Commission and the other EU institutions. It presents its findings for the previous financial year in its annual report.

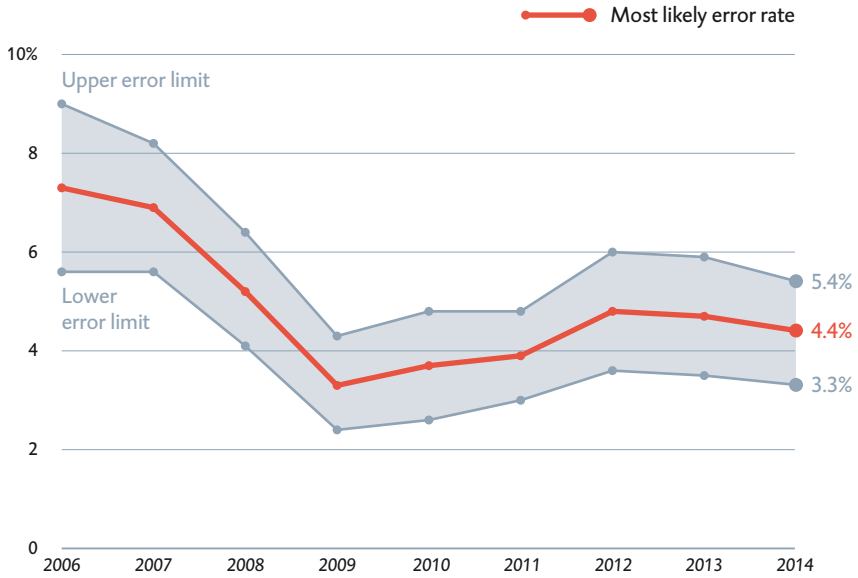
The findings play an important role in the European Parliament's decision to discharge the Commission or not for its implementation of the budget. The European Court of Auditors does not express an opinion on the regularity of expenditure in individual member states. It considers only the management and control systems in place for EIJU funds and expresses an opinion on their functioning.

Again no positive Statement of Assurance on EU expenditure

Although the European Parliament has granted discharge to the European Commission for its implementation of the EU budget every year since 1998, the European Court of Auditors has never expressed an unqualified opinion on the regularity of expenditure from the budget. Each year, its audits find too many errors. An error occurs if, for example, the costs declared to carry out an EU project are ineligible but are nonetheless reimbursed. Apart from the payment of ineligible costs, the most frequent serious errors relate to contract award procedures and incorrect declarations of field sizes by farmers.

14
The Netherlands has designated the Customs Information Centre (DIC), part of the Rotterdam Rijnmond regional customs office, as the AFCOS for customs matters and for carrying out checks for the Commission under Regulation (EC) 2185/96, which applies to all EU activities to combat fraud with EU funds. The DIC will deal with all judicial, legal and policy matters.

General error rate found by the European Court of Auditors
2006-2014



Minimal decline in error rate in expenditure by the European Commission
The European Court of Auditors was again unable to issue a positive Statement of Assurance (Déclaration d'Assurance, or DAS) on the Commission's implementation of the EU budget in 2014 (European Court of Auditors, 2015).

The European Court of Auditors states in its annual report for 2014 that the most likely error rate for the Commission's budget as a whole was 4.4%. Given the total expenditure for the year of nearly € 142.5 billion, material errors were detected to an amount of nearly € 6.3 billion. In its 2013 annual report the European Court of Auditors had initially reported an estimated error rate of 4.7%. In 2014, however, it refined its method to calculate the estimated error rate and restated the most likely error rate for 2013. The new method takes account of the quantification of serious errors in public contracting. This resulted in an estimated error rate of 4.5% for 2013.

The European Court of Auditors classifies an error as 'material' if its quantifiable financial value is equal to 2% or more of total expenditure. This was also the case again in 2014; the errors detected in all areas of expenditure (with the exception of 'administration') exceeded the materiality threshold of 2%. The two most error sensitive areas of expenditure were regional and urban policy, with an error rate of 6.1%, and rural development, environment, climate action and fisheries, with an error rate of 6.2%. No material errors were found in revenues.

For the eighth year in succession, the European Court of Auditors gave a clean opinion on the reliability of the accounts. It concluded that the accounts fairly presented the financial position at the end of 2014 and the performance during the 2014 financial year.

1.3 Accountability by the member states

1.3.1 Member states' accountability in annual summaries

Since 2008 every member state has had to submit an annual summary to the Commission. The annual summary presents the results of national audits completed in the previous financial year and the results of controls of EU projects in the member state.[15] The annual summaries must be submitted no later than 15 February of the following financial year.

In accordance with the Commission's guidance note (whose use is not compulsory), the annual summaries for each structural fund programme include an audit opinion,[16] a calculation of any shortcomings and irregularities (including any corrective measures taken or planned) and the error rate detected by audits of each project. Separate annual summaries are prepared for agricultural funds and migration funds. A partial exemption from this rule is available for member states that have only one paying agency for agricultural funds; they do not need to submit separate summaries of controls of agricultural funds.

Changes in the new Financial Regulation

The EU's new Financial Regulation adopted in October 2012 defines more precisely (in article 59, paragraph 5b) what control information the member states must submit to the European Commission each year. They must provide an annual summary of the final audit reports and of the controls they carried out, including an analysis of the nature and extent of errors and weaknesses identified in systems, as well as corrective actions taken or planned. The new Financial Regulation also requires the annual summaries to be accompanied by the opinion of an independent audit body. The auditor's opinion should establish whether the transactions underlying the annual summary are legal and regular. The member states must submit these documents as from 2016. (Regulation (EU) No 1303/2013 of the European Parliament and the Council of 17 December 2013; article 138).

The annual summaries are issued by the authorised bodies in each member state and sent to the relevant DG in the European Commission. In the Netherlands, the annual summary for the ERDF and the EFF[17] for 2014 was compiled by the Ministry of Economic Affairs (EZ), that for the ESF by the Ministry of Social Affairs and Employment (SZW) and that for the EU migration funds by the Ministry of Security and Justice (V&J). The Netherlands is no longer obliged to prepare an annual summary for the agricultural funds (EAGF and EAFRD[18]) as it has had just one paying agency for them since 16 October 2013.[19] It has accordingly not submitted an annual summary for the agricultural funds since then.

Annual summaries 2014: the Netherlands

The audit opinions presented in the 2014 annual summaries on the Dutch programmes funded from the ERDF and ESF structural funds and the EFF fisheries fund are shown in the figure hereafter. The corrected net error rate is also shown for each programme.

15 Checks are made of the member states' management and use of the funds they receive to implement EU agricultural, structural and migration policies.

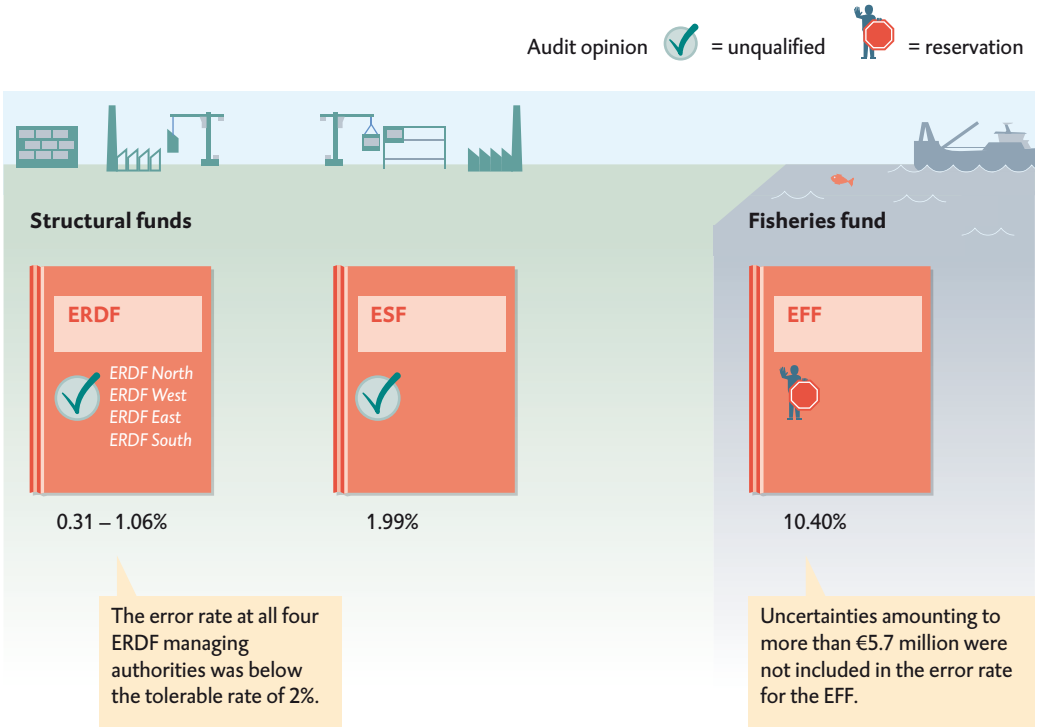
16 The audit opinion can be an unqualified opinion, a qualified opinion, an adverse opinion or a disclaimer of opinion.

17 EFF: European Fisheries Fund.

18 EAGF: European Agricultural Guarantee Fund. EAFRD: European Agricultural Fund for Rural Development.

19 Commission Regulation No 885/2006 of 21 June 2006; article 7(5).

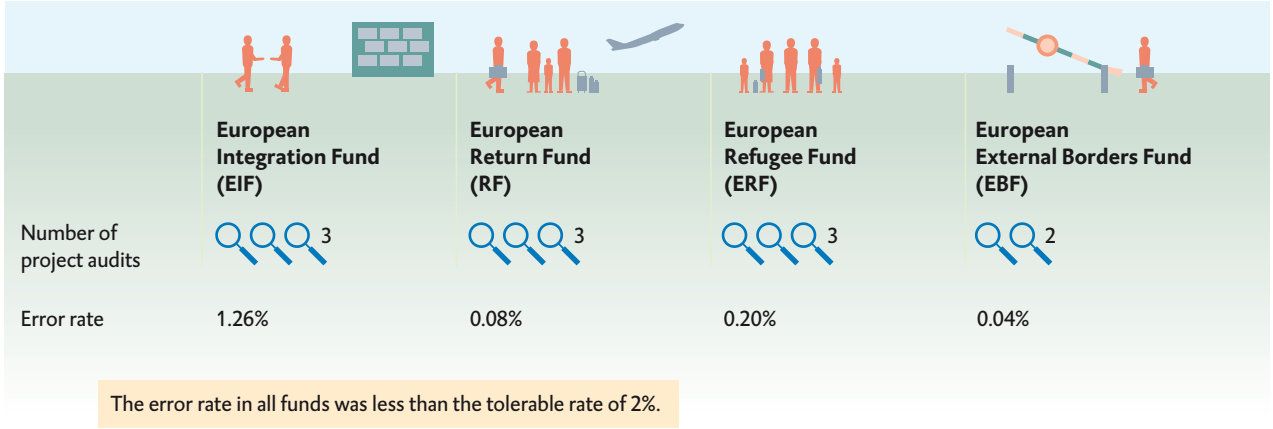
Audit opinions in Dutch annual summaries 2014: ERDF, ESF and EFF



Unlike the annual summaries for the funds considered above, the annual summaries for the four migration funds disclose only the total amount of eligible costs audited and the amount in error, not the error rate per fund. The four migration funds are the European Integration Fund (EIF), the European Return Fund (RF), the European Refugee Fund (ERF) and the European External Borders Fund (EBF). Eleven of the projects financed from these funds were audited in 2014.

The annual audit reports on the migration funds use the European Commission's calculation method to quantify the error rate. The error rate in each of the four funds was less than 2%.

Project audits and error rate per migration fund



The Dutch audit authority reviewed the management and control systems in the period between November 2013 and the end of June 2014 and found that the minimum requirements were satisfied.

Annual summaries 2014: EU-wide
To date, the EU member states' annual summaries for 2014 have not been published. We think this is a missed opportunity because their publication could improve the insight available into the implementation of EU programmes.

There is nothing to prevent the member states publishing their annual summaries voluntarily. The European Commission has indicated that the member states are free to decide what accountability documents they release. The member states themselves therefore decide whether they want to contribute to the transparency of the EU funds they spend (European Commission, 2014c).

The activity reports published by the European Commission's DGs disclose only whether the annual summaries satisfy the minimum requirements. The DGs' assessment of the member states' 2014 annual summaries found that the vast majority of them did. In contrast to previous years, DG Agriculture and Rural Development's activity report did not include any information on the annual summaries.

1.3.2 Member states' accountability in national declarations

A member state's government issues a national declaration to account publicly for its management and use of EU funds in the previous year. It is a public document that reveals where there are problems in the management of EU funds and where errors occur in their use. In it, the government assumes political responsibility for the funds' management and use. If, for example, a large sum is spent irregularly in a member state in a particular year, the responsible ministers or local or provincial management bodies can be held to account and corrective measures can be taken to improve the situation. The political and management accountability inherent in a national declaration is an improvement on the other accountability documents that the member states submit to the Commission. Unfortunately, few member states currently publish national declarations. Only three did so in 2014: Denmark, Sweden and the Netherlands. To date, the member states have not been obliged to publish national declarations.

Our opinion on the Dutch national declaration for 2015: positive but...
The Dutch Minister of Finance issued the Netherlands ninth national declaration on behalf of the government in 2015. The Court of Audit has expressed an independent opinion on all nine of the national declarations.

In our report on the 2015 national declaration we stated that it provides a good view of the management and use of EU funds in the Netherlands. Nevertheless, we drew attention to aspects of the management that are open to improvement (Netherlands Court of Audit, 2015). We also noted that the national declaration should contain information on the efficiency and effectiveness of EU funding. Do EU funds actually achieve the intended goals? And if so, do they achieve them efficiently or could the same goals have been achieved with less money or in a different way?

In the EU's new programming period (2014-2020), Brussels is giving higher priority to the achievement of results. The EU's funding of projects will depend in part on their contribution to the Europe 2020 targets set for each member state.[20] Information on effectiveness and efficiency will therefore be an important aspect of accountability for EU funding in the new programming period.

EU contributions

The European Commission awards EU funds from its 'own resources', the money member states contribute to the EU budget. Summary information on the Dutch contributions to the EU is provided only in the Ministry of Foreign Affairs' annual report.

The Court of Audit believes the national declaration should include information on the Netherlands' contributions to the EU and their management. This would produce comprehensive accounts of both the amounts the Netherlands receives from the EU (grants) and the amounts it contributes to it. One of the advantages of such comprehensive accounts is that they would provide an insight into the system underlying the additional contributions Brussels sometimes imposes on member states. The Dutch parliament was 'taken by surprise' by such an additional contribution in 2014. A comprehensive national declaration would have provided parliament with more insight into the amount the Netherlands had to pay to the EU and enabled it to hold a timely debate on additional contributions.

National declarations in other countries

The Swedish government published its fifth annual national declaration on the use of EU funds under shared management in 2015. Since the Swedish declaration is published as part of the central government's annual report and the Swedish audit institution audits the annual reports of all executive government bodies, it also expresses an opinion, albeit indirectly, on the regularity of the use of EU funds in Sweden.

The Danish national declaration is a brief financial statement on EU outgoings (contributions) and EU receipts (grants) that is prepared by the Danish Minister of Finance and included in the central government's annual report. It is audited by the Danish audit institution, Rigsrevisionen, which examines whether the statement gives a true and fair view of EU outgoings and receipts and the regularity of the underlying transactions. The opinion is presented in a thorough report that Rigsrevisionen submits to the parliamentary public accounts committee, which adds administrative conclusions to the report and, with the ministry, checks that the recommendations are acted upon.

The United Kingdom used to issue a national declaration but has not done so since 2012.

En route to better accountability?

The other member states have not taken any concrete initiatives yet to voluntarily render political account for their management and use of EU funds.

In our opinion, a first step to improve accountability for EU funds in the member states would be to make the publication of national declarations compulsory. Article

20
The EU has set key targets in five areas for 2020:
1. employment,
2. research, development and innovation,
3. climate change and energy
4. education, and
5. poverty and social exclusion.

These Europe 2020 targets have been translated into national goals taking account of the specific situation and circumstances in each member state.

59 of the new Financial Regulation lays down that before 15 February of each year all member states must submit not only annual summaries but also management declarations providing assurance on the regularity of the expenditure declared to the European Commission.

National declarations, however, have considerably more added value than annual summaries and management declarations because (a) they contain an overarching opinion on the regularity of funds flows (rather than on individual funds) so that it is a more usable and accessible document, (b) political responsibility is assumed for the opinion, and (c) national declarations, unlike annual summaries and management declarations, are public documents that every EU citizen and member of parliament can read.

2 Effectiveness and efficiency

The previous chapter asked whether the member states spent EU funds in accordance with the rules (regularly). This chapter asks two questions that are just as important to EU citizens: did the use of those funds deliver the required outcomes and could those outcomes have been delivered more efficiently (at lower cost). The first question is concerned with the effectiveness of expenditure, the second with its efficiency.[21]

This chapter looks at the various reports the European Commission, the European Court of Auditors and the member states' supreme audit institutions issue every year on the effectiveness and efficiency of expenditure. It considers whether they provide an insight into what EU funds actually achieve. Do they clarify whether and, if so, how investments in the member states deliver the EU's goals?

We again begin at EU level by discussing the reports issued by the European Commission (section 2.1) and by the European Court of Auditors (section 2.2). We then look at the reports issued by the member states (section 2.3).

2.1 Reports issued by the European Commission

2.1.1 The Commission's activity reports

Little information on the effectiveness of EU policy

All the European Commission's Directors-General must prepare an annual report on the activities they perform in their policy fields. In the previous chapter, we discussed the regularity information contained in the activity reports of 12 Directorates-General responsible for implementing policy (policy DGs).

In each EU Trend Report we study the activity reports of 12 policy DGs to determine what information they present on the effectiveness of EU policy in the member states. We found that the 2014 activity reports (like those for previous years) provided some information on the outputs in the member states but none on the outcomes of the policies and funding programmes. Insight into the effectiveness of EU policy in the member states is therefore minimal.

Improvements in content, organisation and system

In their annual activity reports for 2014, the 12 policy DGs we studied set out: (a) the general and specific goals of the policies implemented in the previous year, (b) the indicators used to determine whether the intended outputs were delivered and whether the policies delivered the intended outcomes (the output and impact indicators), and (c) the outcomes themselves. All this information was presented in orderly tables so that it was easy to interpret.

The content and organisation of the activity reports have improved over the years in response to instructions from the Commission.[22] Improvements have also been made in the information on outputs.

21 For the sake of convenience, we refer to 'efficiency reports', even if the reports contain an opinion on the effectiveness of expenditure.

22 In its 2013 Synthesis Report, the Commission instructed the central services to develop a more tailor-made approach to performance reporting in the annual activity reports. See European Commission, Communication from the Commission to the European Parliament, the Council and the Court of Auditors, Synthesis of the Commission's management achievements in 2013, COM(2014) 342 final, of 11 June 2014, p. 9.

The reports now contain a large amount of useful information every year on the DGs' achievement of their goals and there has been a further streamlining of the output evaluations. Previous output-related improvements had included examples of measures to improve management efficiency and value for money, more detailed output information from evaluations, studies, audits, assessments, etc., representative examples to demonstrate the added value of EU programmes and better coherence between the management plans and the annual activity reports.

The compulsory inclusion of management conclusions on the achievement of policy and operational goals also strengthens the coherence and clarity of the activity reports. Their organisation has been harmonised to such an extent that unnecessary differences between them have almost been eliminated and the reports' presentation is more uniform. The documents' transparency has been further enhanced by the inclusion of a summary for the non-specialised reader.

2.1.2 The European Commission's evaluation report

The European Commission's evaluation report provides the European Parliament and the Council of Ministers with the information they need for the discharge procedure.

The discharge procedure

The discharge procedure is a procedure to approve the European Commission's implementation of the EU budget. If approved, the Commission is officially released from its responsibility for budget implementation and cannot later be held to account for it. In brief the procedure is as follows. The European Parliament checks the accounts on the basis of the European Court of Auditors' annual report. The Council (consisting of representatives of the 28 member state governments) gives a positive or negative recommendation on the discharge. If Parliament so wishes, it can ask the Commission to provide further information on expenditure. Parliament then grants or withholds discharge. If it refuses to grant discharge, the Commission is required to explain itself to the next session of Parliament.

The discharge procedure used to concentrate on the legality and regularity of the Commission's implementation of the budget in the previous year. The focus was extended in 2012 to cover the efficiency and effectiveness of policy as well. To this end, a paragraph has been added to article 318 of the Treaty on the Functioning of the European Union (TFEU) requiring the Commission to submit an evaluation report on the execution of the budget based on the results achieved. The Commission submits this annual report to the European Parliament and the Council to explain the delivery of its policy goals, with emphasis being placed on the Union's finances from the perspective of the results achieved by the relevant programmes. The Commission has so far published five evaluation reports.

Gradual improvement in information value of evaluation reports

There has been a gradual improvement in the quality of the evaluation report since the first one was published in 2010. The report is published earlier in the year, for example, so that the European Court of Auditors can consider it in its annual report. The scope has also been widened over the years and recommendations for improvement have also been introduced.[23]

23
See, for example, our EU Trend Report 2014.

According to the European Commission, the further evolution of the evaluation report neds to be seen in the context of the Commission's continuing work on performance across the entire budget cycle. At the request of the European Parliament, an inter-institutional working group on performance-based budgeting will be set up. This working group (consisting of members of the European Commission, the European Parliament, the Council of Ministers and the European Court of Auditors) will improve the EU budget's alignment with the intended results of EU policy.[24]

The fifth evaluation report - published in June 2015 - contains more information on the delivery of the Europe 2020 targets[25] than the previous report. It also refers to concrete programmes that have delivered results. According to the European Court of Auditors, however, these examples are still too limited. The European Court of Auditors found that the Commission expected the evaluation report to present better and more complete information on the results achieved and more information on the delivery of the Europe 2020 targets as from the 2017 financial year. The Commission also thinks it will be difficult to separate the impact of the EU budget from the impact of national budgets and external factors.

2.2 The European Court of Auditors' efficiency reports

The European Court of Auditors audits the information the Commission provides on expenditure every year. It audits not only the regularity but also the efficiency and effectiveness of expenditure in order to express an opinion in its annual report on the Commission's implementation of and accountability for the budget.

The European Court of Auditors does not express an opinion on the use of EU funds in individual member states; that is not its task. Its annual report therefore does not include a formal opinion on the effectiveness of EU programmes implemented in the member states.

Apart from its annual report, the European Court of Auditors publishes about 20 special reports each year on the effectiveness of expenditure in specific areas. The special reports' subject matter, which the European Court of Auditors itself selects, varies from EuropeAid (regarding its monitoring and evaluation systems) to the airport infrastructure paid for by the EU. The European Court of Auditors often audits projects on a random basis in a number of selected member states. Most of the audits consider the structure of a programme and provide more information on performance (outputs) than impact (outcomes).[26]

2.3 Efficiency reports issued by supreme audit institutions

The member states' supreme audit institutions (SAIs) can carry out their own audits of the effectiveness and efficiency of EU policy in their home countries if they are mandated to do so.

Varied scope of national audits

With the exception of the Luxembourg SAI, all supreme audit institutions in the EU audit EU-related subjects. The number of such audits has increased in recent years.

24
COM(2015) 313 final; 26 June 2015. Report from the Commission to the European Parliament and Council on the evaluation of the Union's finances based on the results achieved, p. 6-7.

25
See section 1.3.2 for more information on the Europe 2020 targets.

26
This was one of the key points in a draft resolution issued by the European Parliament's Budgetary Control Committee on 16 December 2013. The resolution was adopted by a plenary session of the European Parliament in February 2014 (Report on the future role of the Court of Auditors; The procedure on the appointment of Court of Auditors' members: European Parliament consultation. A7-0014/2014).

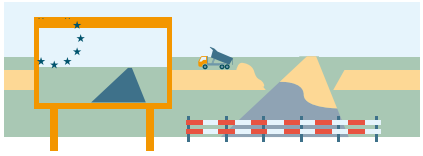
The audit scope varies greatly. About two-thirds of the audits consider the management of EU funds (regularity); the remainder look at policy performance and impact.

In the Netherlands insight chiefly into performance, less into impact

In previous EU Trend Reports we considered the relevant national authorities' insight into the effectiveness of EU policy at both EU and member state level, with a particular emphasis on the Netherlands.

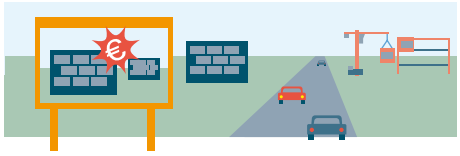
We repeatedly found that the Dutch programming authorities (and with them the responsible ministers) had an insight into policy performance but little information on the ultimate outcomes achieved through EU funding and EU policy.

Insight into performance and outputs…



A road is built with EU funding

…but not into impact and outcomes of EU policy



Is the road used and what are the benefits for the region?

No efficiency information yet in Dutch national declaration

The national declaration the Dutch government issues every year to account publicly for its use of EU funds contains no information on the effectiveness and efficiency of expenditure. We recommended in our report on the 2013 national declaration (Netherlands Court of Audit, 2013b) that such information be included.
The government has not yet acted on this recommendation.

3 Conclusions and recommendations from part I

3.1 Conclusions

No improvement in regularity at EU level
It can be seen from the accountability documents issued by the European Commission that there was no improvement in regularity last year. The European Court of Auditors was again unable to issue a positive Statement of Assurance on the use of funds from the EU budget.

The information value of the Commission's accountability documents, however, was higher. Improvements have been made in the quality and consistency of the DGs' activity reports. The explanations of the reservations made by Directors-General on the reliability of the information provided have also improved over the years.

No improvement in the member states' accountability for regularity
The member states' accountability for their use of funds received from Brussels did not improve last year either. Only three member states, one being the Netherlands, voluntarily issued national declarations in 2014.[27] None of the other member states barring the United Kingdom[28] has ever issued a public declaration on the regularity of their use of EU funds. They have not accepted political responsibility for that expenditure in parliament.

Compulsory publication of national declarations by all member states would considerably improve the democratic content of accountability for EU expenditure in the member states. Some improvements are expected in the near future. The instruments provided by the new Financial Regulation, such as the obligation to have the annual summaries accompanied by the opinion of an independent audit body as from 2016, represent a step forward. However, they will not resolve the shortcomings in the annual summaries themselves. Unlike national declarations, the annual summaries are not made public and are not signed at political level.

Still little insight into the impact of EU policy
Previous audits by both the European Court of Auditors (of the EU as a whole) and the Netherlands Court of Audit (of the Netherlands) have found that there is insight into the performance (outputs) of EU funds in the member states but little is known about the impact (outcomes). We also found that the implementation of EU programmes focused largely on compliance with the rules (regularity) rather than on whether the projects had had the desired effect.

3.2 Recommendations

We recommend that the government continue to encourage other EU member states to render political account, as the Netherlands does, for their use of the money they receive from Brussels. Such a national account would also make it easier for the European Court of Auditors to rely on the results of national audits. A start could in any event be made with the publication of existing accountability documents.

27
The other two countries are Denmark and Sweden.

28
The United Kingdom published a national declaration until two years ago.

In this context we again recommend that the Minister of Finance urge other member states in the Ecofin Council to publish their annual summaries and the new management declarations as from 2016 and that the European Commission publishes its analysis of them.

Part II
Discussion

4 The importance of recognising the added value of the EU

Fourteen annual EU Trend Reports: recurrent problems

Our EU Trend Reports have argued for many years that the citizens of the EU have a right to expect EU funds to be spent in accordance with the rules (regularly), and that resources are used optimally (efficiently) in order to achieve the intended result (effectively). Furthermore, citizens must be able to see that they are. Unfortunately there are several recurrent problems regarding the regularity, efficiency and effectiveness of how EU funds are spent.

For twenty years in succession, for instance, the European Court of Auditors has been unable to express a positive Statement of Assurance on the regularity of the EU's expenditure. There is also a lack of transparency at member state level. It is illustrative that only three of the 28 member states have so far been willing to publish national declarations to account to their national parliaments for their use of EU funds. And there is just as little understanding of the results of EU projects. As a rule, the member states' accountability reporting is confined to descriptions of the measures taken; they say little about whether the measures have actually achieved their desired effect.

Over the years, moreover, our EU Trend Reports have repeatedly called for the publication of reports on the outcomes and social effects of EU programmes. Such information is essential if citizens are to know what EU funds achieve. It could help strengthen support for the EU and enable a well-informed public debate on how to distribute EU funds. It is important that this money is used in areas where the EU has added value. This corresponds with the principle of subsidiarity.

To date audits of EU programmes have focused on their compliance with the rules. Little attention has been paid to whether the funds have had their intended effect and whether the available budget has been spent efficiently. We have seen some signs, however, that changes are being made in the right direction. We will use this part of the EU Trend Report to look at a number of initiatives taken chiefly by the new European Commission that will be considered during the Dutch presidency of the EU.

Focus on results

The new European Commission that took office in 2014 under the chairmanship of Jean-Claude Juncker has given high priority to the performance of the EU. It aims to do more with less money and, where possible, to simplify the rules. These developments provide an opportunity to bring about tangible improvements.

The European Commission wants the EU to spend its budget in such a way that it generates the greatest possible added value. This could lead to a change of direction. To date funding has been guided by the principles of *spend* and *audit*. The chief concern has been to check the implementation of EU programmes by auditing the regularity of expenditure. Less attention has been paid to whether the programmes have had the desired impact.

Traditionally, EU funds have been allocated in advance of each seven-year programming period to a number of policy fields and this distribution is fixed for the entire seven-year period. The funding that each member state receives for most of the policy fields is therefore determined in advance. As a result the Commission's budgeting system is inflexible. According to the Commission it is now time for greater flexibility. Otherwise, the EU will be unable to rise to the crises and urgent challenges it is facing. Allocation should be more closely aligned to today's policy priorities rather than being the outcome of the ingrained considerations and political compromises of the past.

Furthermore, the Commission wishes to fund bigger and better projects that actually make a difference and serve several policy goals at the same time. According to the Commission, this will be more effective than funding countless smaller projects that attempt to implement separate parts of EU policy.

Finally, the Commission thinks more attention should be paid to the results of EU expenditure: what have the programmes and projects actually delivered in terms of outcomes and impacts?

In our opinion the new direction taken by the Commission is a route to a more transparent and effective Union: an EU that spends its money on the most pressing problems. At present the member states seem to focus primarily on getting back as much money as possible from the EU. This 'juste retour' principle is not conducive to the effective use of EU funds. On the contrary, it encourages member states to spend all the budget allocated to them and to carry out projects that deliver few if any social benefits and to fund projects that do not really need funding. In recent years our EU Trend Reports have highlighted cases that illustrate this situation.

EU Trend Report 2014 and 2015: no insight into impacts

Our 2014 EU Trend Report looked at the effectiveness of thirty ERDF projects and our 2015 report at a further six projects that were funded at least in part from other EU programmes. We noted that effectiveness played little if any part in the selection of projects or on their closure upon completion.
We also found that some of the projects would have been carried out even without EU funding. We gave the example of a sporting facility that had been built using funds from the Rural Development Fund. The grant applicant admitted that the gym would have been built anyway, even without financial backing from the EU. Our selection of projects was too small to draw general conclusions on funding, however.

In our opinion it would be more efficient and effective to allocate funds from the EU budget to those programmes and projects that generate the greatest added value in accordance with the principle of subsidiarity. To do so, however, it would be necessary to know which projects would be the most effective. Projects from different member states would thus compete against each other for EU funding so that the best project proposal would be funded regardless of which member state proposed it. If EU funds were allocated in accordance with the 'subsidiarity and added value' criterion, member states could no longer presume that they would get back at least some of their contributions to the EU. This would represent a turnaround in the nationally oriented thinking within the EU.

Controls: flexibility and simplification

The Commission is seeking to make the management of EU funds in the member states *more flexible* and *simpler*. Administrative burdens must be reduced and controls must be simplified wherever possible. More, or more stringent, controls should be carried out only in areas where there are proven risks of management error. The cost of controls, moreover, should never exceed the benefits.

In our opinion the Commission's ambition of making financial management more flexible and simpler is both beneficial and necessary in order to improve the efficient functioning of the EU. Importantly, the Commission is also advocating greater transparency regarding the regularity of EU expenditure and/or the effectiveness of the activities funded and the problems existing in this area. This requires appropriate monitoring of the implementation of EU programmes and adequate reporting on the use of the EU funds. In our opinion the EU added value should be made transparent in all member states, not only in the Netherlands.

Money from the market

The Commission wants the EU budget to act as a 'magnet' that attracts external funding for EU projects. EU policy is currently implemented chiefly by awarding grants. In the future more funding should be in the form of loans, guarantees, equity interests and similar financial instruments. Every euro in the EU budget must attract a contribution from the market and thus create 'more value'. The Commission is urging the member states to make significantly more use of such financial instruments in the new 2014-2020 programming period.

Money from the market, however, does not work in the same way as a grant and this should be borne in mind when selecting projects. Money from the market has to 'earn a return on its investment'. The Commission recognises that only financially healthy projects that generate sufficient income to pay back the loan, guarantee or other instrument will be eligible for funding. At the same time the projects must be ones that the market would not invest in without cofunding from public sources.

The Juncker Fund: a new approach to the EU budget

An interesting fund that reflects the Commission's new thinking on the EU budget is the European Fund for Strategic Investments (EFSI), popularly known as the Juncker Fund after its initiator. It was established in June 2015 as a vehicle for the Commission to invest at least € 315 billion in the period from 2015 to 2017 to promote structural economic growth in the EU. The fund will be applied for infrastructure, research and sustainability projects and to invest in small and medium-sized enterprises. It will be managed by the European Investment Bank. Not all the billions placed in the fund will come from the public purse;[29] most of the capital will be raised on the private market.

Funding EU projects by means of loans, guarantees, equity interests and similar private financial instruments is a step towards greater (and more transparent) effectiveness. It is thought that the results that a project is expected to achieve will determine the accessibility to such financial instruments more than in the case of traditional grants. This in turn could increase the effectiveness of EU funding.

29 The European Commission will guarantee € 16 billion, half of which as a reserve formed from the EU budget. The European Investment Bank (EIB) will form its own reserve of € 5 billion for the fund.

There are some drawbacks to the use of market funds, however, that must not be overlooked. The EU must clearly identify, for example, where its use of a financial instrument will generate added value and where market forces should be left to work on their own. Striking the right balance may prove a difficult exercise for the Commission and the member states.

A different assessment of regularity?

To date the regularity of how the European Commission spends the EU budget has been assessed by means of just one indicator: the error rates determined by the European Court of Auditors during its annual audit of the regularity of EU expenditure. According to the Juncker Commission, this indicator is far too restrictive. For instance, no account is taken of corrections made in subsequent years (such as the recovery of undue payments and the imposition of fines on member states). According to the Commission it would be better to use a *multiannual* error rate to assess regularity as it would allow for the correction of errors during the programming period. In the Commission's opinion this would also act as a positive incentive to make corrections, as the assessment would also take into account the corrective capacity of the management and control systems.

The Commission's approach is understandable. But we wonder whether the issue of regularity should not be analysed in more detail before deciding on the best way to assess it. We noted above that there are recurrent problems in the regularity of EU expenditure. The fact that the European Court of Auditors has not issued a positive Statement of Assurance on EU expenditure for twenty years in succession speaks volumes. But what are the problems at the root of the negative Statements of Assurance?

Our audit work over recent years of the regularity of EU expenditure in the Netherlands found a number of recurrent issues:

- EU and national public contracting rules are not observed;
- Project costs are claimed in Brussels even if they are ineligible;
- Management and control bodies interpret EU funding rules differently, with one body approving things that another rejects and vice versa.

Some of the errors arise from the complexity of the rules and procedures in place for EU grants. What is and is not permitted is so complicated that many actors in the EU 'funding mill' have a poor understanding of the subtleties and make unintended mistakes. The fact that this has been known for so many years and has not been improved indicates systemic error. The EU rules are subject to too many conditions and the conditions can be interpreted in too many ways.

The annual discussion of the error rate the European Court of Auditors determined has not yet led to any meaningful improvements. In this light, the European Commission's objections to the assessment are understandable. Annual auditing, however, has the benefit of keeping the auditee on its toes and enables changes and corrections to be made when errors are detected rather than at the end of the project. In our opinion a combination of annual audits and an insight into the errors that remain in the multiannual programming period after corrections have been made, might be a more productive approach.

It is not unimportant in this respect that auditors at EU level rely on the regularity auditing of EU funds carried out by the supreme audit institutions (i.e. at national level). Such a 'single audit structure' has benefits not only for the auditors. It also reduces the audit burden on both grant providers and grant recipients. To this end, the European Court of Auditors and the supreme audit institutions will have to work together more closely. This is therefore a matter for the community of supreme audit institutions in the EU to address.

Discussion of a new budget system: an important step

We welcome the increasing willingness within the EU to ask fundamental questions about the allocation of EU funds and the readiness of the Commission's to respond to this signal. A discussion has been started about replacing the current budget system with its traditionally-set expenditures with a more flexible system that can respond to developments and allocate EU funds on the basis of added value. The German finance minister, for example, has proposed that the use of EU funds be limited to areas where the EU has added value and to problems that can be tackled only at EU level. This can be seen as an embodiment of the principle of subsidiarity. The EU should let member states themselves fund initiatives that currently receive EU funding but do not necessarily have to be paid for by the Union.

The funding and budgeting issues cannot be seen in isolation from questions about the organisation and tasks of the EU. As long as the EU budget is 'fed' directly by the member states, the member states will want to get back a 'fair' share of the budget and will therefore seek to spend EU funds in their home countries, even if cross-border competition between projects would be more effective. The discussion of funding therefore goes to the heart of the EU: What is the EU's raison d'être? What could the member states do better themselves? Where does the EU have added value? In addition it is important to make the results of EU activities known to all concerned, not least so that the regularity, efficiency and effectiveness of expenditure can be audited efficiently. Our position is that the citizens of the EU have a right to expect EU funds to be spent efficiently, effectively and regularly and that expenditure should be completely transparent.

In conclusion

In our opinion the European Commission has taken the right course in considering the initiatives discussed above. It is now important that the initiatives bear fruit. The financial management issues we have repeatedly highlighted in our EU Trend Reports and elsewhere have been in existence for many decades. A fundamental revision of the budgeting system could help make these recurrent problems a thing of the past.

Similarly, an appropriate system should be introduced to account for and audit expenditure. Thanks to the Commission's efforts in the past few years, some ground has been gained in the discussion of accountability reporting of EU expenditure at the national level. But there is still a lot of ground to be won: too few member states are willing to publicly account for their use of EU funds annually. This, too, is an urgent challenge.

These improvements require not only good ideas and intentions but also decisive and consistent narratives and actions. Democratic accountability means clarifying the results the EU has achieved and letting this insight help guide the future activities of the EU.

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